
Review of Separation Allowance Disqualification Periods
Report No. 01-15, September 20, 2001

INTRODUCTION

This report presents the results of an Office of Inspector General (OIG) review of the Railroad Retirement Board's (RRB) processing of separation allowance information to prevent and detect overpayments.

BACKGROUND

The RRB, an independent agency in the executive branch of the Federal government, administers retirement-survivor and unemployment-sickness benefit programs for railroad workers and their families. The RRB paid net unemployment and sickness benefits totaling \$79 million to about 35,000 claimants in fiscal year 2000.

A separation allowance is a payment by an employer to an employee in connection with the severing of the employment relationship. The Railroad Unemployment Insurance Act (RUIA) disqualifies employees who receive separation allowances from receiving unemployment and sickness insurance benefits. This disqualification lasts approximately as long as the employee would have worked to earn the amount of the separation allowance. A formula is used to determine the separation allowance disqualification period and includes the amount of the separation allowance, the last daily rate of pay, and the number of days in a normal workweek.

RRB regulations (20 CFR 209.14) require employers to notify the RRB when separation allowances are paid. They are required to submit separation allowance information by the last day of the month following the end of the quarter in which payments were made. Employers are required to report separation allowances on Form BA-9, "Report of Separation Allowance or Severance Pay." As an alternative, employers may report separation allowances by electronic media (magnetic tape or computer diskette).

When an employee requests unemployment or sickness insurance benefits, the employee is required to report receipt of a separation allowance on his or her application and subsequent claim forms. RRB field office and headquarters personnel process these applications and claims forms and ensure payment stop codes or separation allowance disqualification periods are established on employee records.

The RRB uses payment stop codes to prevent the payment of unemployment and sickness insurance benefits until RRB field office or headquarters personnel obtain separation allowance and employment information from the employer. The

RRB uses the separation allowance and employment information to calculate and establish disqualification periods in its computer systems. Once a separation allowance disqualification period is established, a RRB computer program scans RUIA benefit payment records to identify any payments made for days included in the disqualification period. Any identified payments are referred for further analysis to verify the overpayment of benefits.

Prior to paying RUIA benefits, the RRB notifies employers of their employees' claims for benefits. This notification allows employers an opportunity to verify the accuracy of the claims. Employers can challenge the RRB's payment of RUIA benefits in instances in which employees received separation allowances.

The RRB's Strategic Plan (2000 – 2005) provides that the RRB will provide excellent customer service. Its first objective under that goal is to optimize accuracy in providing benefits. This audit addressed that key area of agency performance.

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of the review was to determine whether controls are sufficient to prevent and detect erroneous RUIA benefit payments.

To accomplish the objective, the OIG:

- reviewed applicable sections of the RUIA and other regulations;
- reviewed applicable RRB procedures for reporting and processing separation allowance information and calculating the disqualification period;
- reviewed and assessed the adequacy of controls relating to the identification of separation allowances, gathering of separation allowance details, calculation of separation allowance disqualification periods and identification of erroneous payments;
- interviewed RRB personnel;
- reviewed a judgmental sample of all 41 individuals reported on 3 BA-9 forms selected from Employer Service and Training Center files to determine if payment stop codes were input into the Railroad Unemployment Claims System. Auditors also determined whether RUIA benefits were paid for periods which should have been covered by a separation allowance disqualification period;
- reviewed a random sample of 8 cases to verify the accuracy of the disqualification periods calculated by the RRB's computer program; and
- reviewed a random sample of 8 overpayments, selected from the RRB's accounts receivable system, caused by payment of RUIA benefits during disqualification periods to determine causes of the overpayments.

Auditors reviewed controls and procedures in effect for separation allowance disqualification periods in calendar year 2000 as applicable to the scope of the review. This review included identifying and assessing controls over the various event cycles. However, auditors did not review general and application controls for the various automated data processing applications and systems for processing separation allowance information and calculating disqualification periods as this was outside the scope of this review.

This review was performed in accordance with generally accepted government auditing standards appropriate for the objectives described above. The fieldwork was performed at the RRB headquarters office in Chicago, Illinois from May 2000 through July 2001.

RESULTS OF REVIEW

The RRB has effective controls for identifying separation allowances. Once separation allowance data is entered into RRB computer systems, computer applications are effective in accurately calculating separation allowance disqualification periods and in preventing and detecting erroneous RUIA benefit payments. The RRB can, however, improve controls to ensure that separation allowance data is input into RRB computer systems and disqualification periods are established in a timely manner. Current processing could allow some benefits to be erroneously paid and overpayments to go undetected.

Control weaknesses in establishing separation allowance disqualification periods and a recommendation for improvement are discussed in the following section of the report.

PROCESSING OF BA-9 INFORMATION

The RRB currently follows a policy of disregarding BA-9 separation allowance information for the purpose of establishing separation allowance disqualification periods. Although the RRB collects and processes this information, it does not use it to establish separation allowance disqualification periods.

The BA-9 information serves more than one purpose. The BA-9 form gathers information on separation allowance payments so that the RRB can calculate the separation allowance lump sum amount (SALSA). The RRB pays this amount to employees who received separation allowances after 1984. The SALSA amount is a refund of the portion of the separation allowance that was taxed but not used to produce regular retirement service credits. Up until the mid-1990's the RRB also used the BA-9 information to establish separation allowance disqualification periods.

Railroad employers may file separation allowance information on paper BA-9 forms or by electronic media. RRB personnel input the information from the paper BA-9 forms into a computer file. RRB computer programmers merge this data with separation allowance information reported via electronic media. The programmers then separate and store the data for use in calculating SALSA payments and establishing separation allowance disqualification periods. However, the RRB does not use the computer data to establish separation allowance disqualification periods.

RRB management had used the computer data to establish separation allowances, but determined that this information generated too many referrals for manual follow-up. As a result, sometime during the mid-1990's, RRB

management decided to quit using the BA-9 information for the purpose of establishing separation allowance disqualification periods.

The RRB does not have data reflecting the number of additional disqualification periods that would be established and overpayments that would be identified if the RRB processed BA-9 separation allowance information to establish disqualification periods. A match of BA-9 computer data and RUIA computer systems would identify the extent of unidentified overpayments and separation allowance disqualification periods that have not been established.

The RRB's primary control for establishing separation allowance disqualification periods is self-reporting of separation allowances when applicants claim sickness and unemployment benefits. Although the majority of applicants do report receipt of separation allowances on sickness and unemployment benefit applications and claim forms, some applicants either inadvertently or intentionally fail to report receipt of separation allowances. The review of a sample of 8 overpayment cases showed that the applicant did not report the receipt of a separation allowance on 6 of the initial applications for benefits. In three of these 6 cases, the applicant subsequently notified the RRB of the receipt of a separation allowance.

The RRB also relies on the prepayment verification process to identify receipt of separation allowances by unemployment and sickness benefit applicants. Under this process the RRB notifies employers of their employees' claims for benefits. This notification allows employers an opportunity to verify the accuracy of the claims. Employers can provide information to the RRB that can prevent or detect the payment of RUIA benefits in instances in which employees received separation allowances. However, the responsible program manager indicated that this is not a significant method for identifying the receipt of separation allowances.

As of June 30, 2000, the RRB's accounts receivable system contained 37 receivables that were related to separation allowances. These receivables, with an outstanding balance of approximately \$50,000, involved benefit payments made for days that were subsequently determined to be part of separation allowance disqualification periods. Although the RRB has developed controls to prevent and detect the overpayment of benefits relating to the receipt of separation allowances, the OIG believes that additional overpayments can be prevented or detected through the use of BA-9 information.

RRB personnel already input paper BA-9 forms into a computer file, merge this data with BA-9 separation allowance information filed by electronic media, and store this computer data. However the data is not used to establish disqualification periods. Office of Program personnel question the need for processing BA-9 separation allowance data to establish separation allowance

disqualification periods and to identify benefit overpayments. They do not believe that this control is cost beneficial. However, they do not have quantified information to support their belief.

Recommendation:

The Office of Programs should use BA-9 separation allowance data to establish separation allowance disqualification periods or provide quantified information to justify not using this data.

Management's Response:

Management concurred with this recommendation and will change programs to use BA-9 separation allowance data.